

KENTUCKY ECONOMIC INDICATORS

September 2005 Indicators as of November 14, 2005

KY Composite Index of Leading Indicators decreased 2.5 percent in September.

- The Leading Index decreased for the second consecutive month.
- The Leading Index rose by 1.1 percent over the same month last year.
- Component indicators leaned negative, 2:3.
 - KY Labor Intensity Index decreased 0.9 percent.
 - The US Leading Index decreased 7.6 percent.
 - The KY Index of Initial UI Claims decreased 29.4 percent.
 - + US Retail Sales increased 3.6 percent.
 - + The Louisville Help Wanted Index increased 10 points to 56.

Component weights for September are 52.70, 19.86, 15.00, 10.69, and 1.75 respectively.

KY Composite Index of Coincident Indicators increased 2.4 percent in September.

- The Coincident Index resumed its positive movement in September.
- Same-month-last-year growth is positive for the twenty-sixth consecutive month at 1.8 percent.
- Component indicators leaned positive, 2:1.
 - + KY Total Nonagricultural Employment increased 1.7 percent.
 - US Industrial Production Index decreased 14.9 percent.
 - + US Personal Income Less Transfers increased 29.4 percent.

Component weights for September are 33.10, 29.95 and 25.92 respectively. Component weights do not sum to one because the two US components were discounted to allow the Kentucky component more weight.

The Kentucky Leading Index declined for the second consecutive month. Several components have changed their trend recently. The most significant is the US Leading Index which recorded its third consecutive decline in September. It is worth noting that past monthly values in several US Leading Index components get revised as new more reliable data are gained, as do the components in the Kentucky Leading Index. The July 2005 US Leading Index growth was revised from -0.9 percent to -1.7 percent and the August 2005 US Leading Index growth was revised from -2.6 percent to -0.9 percent. The latter revision is significant because it nearly deleted the string of negatives. These revisions can have significant impacts on the Kentucky Leading Index as the US Leading Index has the second highest weight in the series.

The US Leading Index is made of ten components. Four of those ten components (manufacturers orders for consumer goods, manufacturers orders for non-defense capital goods, building permits for new private housing and M2) have their histories revised on a regular monthly basis. The August 2005 value for manufacturers orders for consumer goods was revised down by 1.7 percent. The August 2005 value for manufacturers orders for non-defense capital goods was revised down by 0.9 percent. The August 2005 value for building permits for new private housing was revised down by 0.7 percent. The August 2005 value for M2 was revised up by 0.003 percent. Because M2 carries the most weight, the upward revision plus the six unrevised components caused the August value to increase to -0.9 percent. The large August revision in the US Leading Index led to a small revision in the Kentucky Leading Index for August. The August Kentucky Leading Index growth rate was revised up from -1.2 percent to -0.8 percent. While the US Leading Index's declines have hurt the Kentucky Leading Index over the last three months, the revision to the August value actually had a small positive effect for the Kentucky Leading Index.

The impacts from Hurricane Katrina greatly affected September's indicators. The more pertinent component, which affected the Kentucky Leading Index was the US Initial Claims for Unemployment Insurance, which is a component of the Kentucky Index of Initial Unemployment Insurance Claims. The Kentucky Index of Initial Unemployment Insurance Claims also contains a Kentucky component, First Payments. First Payments are a count of the number of persons receiving their first unemployment insurance payment during a particular employment cycle. The Kentucky First Payments actually went down for September. But the extreme surge in US claims overwhelmed the Kentucky component and caused the Kentucky Index of Initial Unemployment Claims (an inverted index, where increases mean unemployment claims are down) to decline significantly.

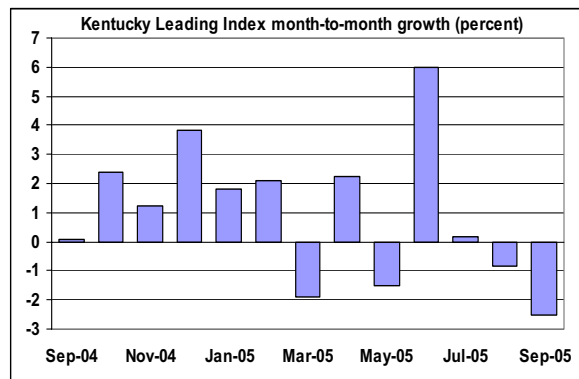
The US Leading Index fell by 7.6 percent. Five of the ten US Leading Index components fell in September. Money Supply (M2), which is the heaviest weighted component in the US Leading Index fell moderately along with the third heaviest weighted (Interest Rate Spread), fourth heaviest weighted (Manufacturers Orders of Consumer Goods), eighth heaviest weighted (Consumer Expectations) and tenth heaviest weighted (Manufacturers Orders for Non-defense Capital Goods). Components are frequently divided into financial components and non-financial components. There was no clear alignments among these two components as indicators were mixed in both subdivisions.

Kentucky Nonagricultural Employment rose a net 2,600 jobs in September. The category is now up over 25,000 jobs since last September. The series has now recovered 85.9 percent of its 2001 recession losses, where the former peak of October 2000 was 1,831,300 and the last trough of July 2003 was 1,777,400. Kentucky Manufacturing Employment lost 100 jobs in September, but it is still up 2,600 jobs over last September.

General Fund Tax Receipts grew at an extraordinary rate. It is the highest same-month-over-same-month-last-year growth rate since 1995. General Fund Tax Receipts for the first nine months of 2005 have grown 12.5 percent over Tax Receipts for the first nine months of 2004. Sales and Use Receipts are up a strong 11.1 percent in September. That is the 23rd consecutive month of growth in Sales and Use Receipts when compared to one year earlier.

Footnote

There are two factors which can cause historical data to change from one month to the next. First, data revisions are the most common cause of data changes. As better and more precise data become available, they replace the original or preliminary data. The second factor that can cause changes in historical data is the addition of a new data point (a new month of data for each component). When a new data point is added to each index component, it changes its standard deviation, generally by less than one-one thousandth of a percentage point. When the standard deviation changes, so to do the weights. And therefore the values for each element in the history is altered by a small amount. Generally these changes too are less than one-one thousandth of a percent. Occasionally, original values lie close to a rounding point, then revised small changes can cause a rounding adjustment and can appear to be a full tenth of a percent difference.



Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.

About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky UI claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **Louisville Help-wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **GOEA U.S. Leading Index:** We eliminated two variables, UI Claims and weekly hours, from the U.S. leading index since we already use the Kentucky equivalents. The remaining eight components of the U.S. leading index were tested, eliminating both the interest rate spread and the slower deliveries diffusion index of vendor performance. The remaining six components were then re-indexed by GOEA.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

	2004					2005							
	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
KY Leading Index (1992=100)	117.8	118.1	118.2	118.6	118.7	119.0	118.8	119.0	118.8	119.4	119.4	119.3	119.1
	0.1	2.4	1.2	3.8	1.8	2.1	-1.9	2.2	-1.5	6.0	0.2	-0.8	-2.5
	1.7	2.2	2.0	1.9	1.9	1.8	1.0	1.3	0.9	1.4	1.6	1.3	1.1
KY Coincident Index (1992=100)	130.5	131.2	131.4	133.2	132.0	132.2	132.5	132.6	132.8	133.4	133.4	132.5	132.8
	-1.0	6.7	2.2	17.6	-10.8	2.7	2.0	0.9	2.1	5.2	0.2	-7.4	2.4
	2.2	2.5	2.2	3.4	2.3	2.1	2.3	2.1	2.1	2.6	2.4	1.5	1.8
KY Nonag Employment (000s)	1,798.6	1,801.0	1,800.7	1,802.7	1,802.4	1,803.6	1,807.1	1,815.1	1,816.7	1,821.2	1,817.3	1,821.1	1,823.7
	1.3	1.6	-0.2	1.3	-0.2	0.8	2.4	5.4	1.1	3.0	-2.5	2.5	1.7
	0.8	0.8	0.8	0.7	0.7	0.7	0.8	1.0	1.3	1.4	1.5	1.4	1.4
KY Mfg Employment (000s)	264.4	265.5	264.7	264.2	264.6	264.5	265.1	266.0	266.4	265.4	259.6	265.7	265.6
	-0.9	5.1	-3.6	-2.2	1.8	-0.5	2.8	4.2	1.8	-4.4	-23.3	32.1	-0.5
	0.0	0.5	0.2	-0.2	0.0	0.0	0.3	0.7	0.7	0.5	0.5	0.4	0.5
KY Unemployment Rate (%)	4.9	4.8	4.7	4.7	5.0	5.2	5.3	5.6	5.7	5.7	5.9	5.4	5.7
KY Index of Initial UI Claims	102.5	103.1	102.4	103.1	102.8	103.9	103.3	103.6	102.6	103.4	103.4	102.8	99.9
	5.4	6.8	-7.4	8.3	-3.3	14.4	-7.0	3.5	-11.4	10.2	-0.4	-6.0	-29.4
	2.4	1.9	1.1	1.7	1.0	2.6	1.2	1.5	0.2	1.0	1.6	0.8	-2.5
KY Labor Intensity Index (1992=100)	105.2	105.2	105.3	105.3	105.6	105.5	105.7	105.7	105.7	105.5	105.2	105.3	105.2
	0.6	-0.1	1.3	0.4	3.9	-1.1	1.3	1.0	-0.6	-2.2	-3.0	0.3	-0.9
	0.7	0.7	0.7	0.8	1.0	0.8	0.7	0.7	0.6	0.4	0.4	0.1	0.0
Louisville HWI (1992=100)	40.0	41.0	42.0	41.0	42.0	41.0	40.0	38.0	39.0	41.0	41.0	46.0	56.0
	-85.6	34.5	33.5	-25.1	33.5	-25.1	-25.6	-46.0	36.6	82.2	0.0	297.8	959.6
	-45.2	-18.0	-14.3	-28.1	-16.0	-25.5	-28.6	-25.5	-18.8	-19.6	-8.9	-2.1	40.0
GF Total Tax Receipts (\$ mill)	655.0	563.6	587.9	709.7	659.6	500.8	568.6	808.4	525.6	738.7	573.9	555.1	778.4
	4.1	6.3	10.7	5.0	13.1	8.3	11.7	12.1	9.6	16.6	10.5	8.1	18.8
GF Sales & Use Receipts (\$ mill)	206.6	224.0	201.1	217.7	271.4	176.3	200.1	224.2	216.1	219.6	238.5	217.4	229.6
	3.1	5.0	1.0	4.7	8.8	7.5	8.2	3.1	5.1	9.9	5.5	2.7	11.1
GF Income Tax Receipts (\$ mill)	272.2	249.9	230.2	259.0	252.6	231.5	176.1	413.7	215.3	266.3	238.1	250.8	278.0
	-0.3	9.5	2.8	4.6	21.9	6.6	24.0	12.8	13.6	-1.4	6.2	2.2	2.1

SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED

2004

2005

	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
US Leading Index (1982=100)	135.2	135.2	136.0	136.9	136.8	137.1	136.2	136.3	136.5	138.0	137.8	137.7	136.8
% Chg Previous Month SAAR	0.9	0.0	7.3	8.2	-0.9	2.7	-7.6	0.9	1.8	14.0	-1.7	-0.9	-7.6
% Chg Same Month Last Year	6.7	5.7	5.7	5.5	4.5	4.3	2.4	2.3	1.9	2.6	2.1	1.9	1.2
US Coincident Index (1992=100)	117.9	118.4	118.8	120.3	119.5	119.7	119.8	120.0	120.3	120.7	120.9	120.8	120.7
% Chg Previous Month SAAR	0.0	5.2	4.1	16.2	-7.7	2.0	1.0	2.0	3.0	4.1	2.0	-1.0	-1.0
% Chg Same Month Last Year	2.6	2.9	2.8	3.9	3.1	3.0	2.7	2.7	2.6	2.9	2.7	2.5	2.4
US Nonag Employment (Mil.)	131.9	132.2	132.3	132.4	132.6	132.9	133.0	133.3	133.4	133.6	133.9	134.0	134.0
% Chg Previous Month SAAR	1.2	2.6	1.2	1.4	1.1	2.7	1.1	2.7	1.1	1.6	2.5	1.3	-0.1
% Chg Same Month Last Year	1.5	1.6	1.6	1.7	1.7	1.8	1.7	1.7	1.6	1.6	1.8	1.7	1.6
US Unemployment Rate (%)	5.4	5.5	5.4	5.4	5.2	5.4	5.2	5.2	5.1	5.0	5.0	4.9	5.1
US Initial Claims for UI (000s)	344.9	338.6	334.1	330.0	330.1	307.4	337.8	321.9	334.7	320.7	316.7	317.0	404.7
% Chg Previous Month SAAR	16.7	-19.8	-14.8	-13.8	0.4	-57.5	210.1	-43.9	59.7	-40.1	-14.0	1.1	1,774.5
% Chg Same Month Last Year	-13.4	-11.0	-8.9	-8.7	-7.0	-13.7	-1.9	-6.8	-2.6	-5.6	-7.5	-6.9	17.3
US Industrial Production Index	115.7	116.6	116.9	117.9	117.8	118.3	118.6	118.1	118.5	119.4	119.4	119.6	118.0
% Chg Previous Month SAAR	-3.3	10.1	3.1	10.3	-1.6	5.8	3.0	-5.2	4.1	9.7	0.5	1.8	-14.9
% Chg Same Month Last Year	3.9	4.6	3.8	4.4	4.0	3.4	3.9	2.9	2.5	3.7	3.0	3.1	2.0
US Personal Income Less Trans. (Bil. 92\$)	7,639.4	7,713.9	7,745.8	8,071.9	7,794.2	7,811.7	7,820.2	7,839.6	7,853.2	7,887.6	7,910.7	7,683.5	7,850.2
% Chg Previous Month SAAR	-1.4	12.4	5.1	64.0	-34.3	2.7	1.3	3.0	2.1	5.4	3.6	-29.5	29.4
% Chg Same Month Last Year	2.8	3.3	2.9	7.2	3.4	3.4	3.5	3.5	3.5	4.1	3.7	0.5	2.8
CPI, All Urban (1982-84=100)	189.6	190.7	191.2	191.2	191.3	192.0	193.2	194.2	194.1	194.1	195.1	196.1	198.5
% Chg Previous Month SAAR	1.9	7.2	3.2	0.0	0.6	4.5	7.8	6.4	-0.6	0.0	6.4	6.3	15.7
% Chg Same Month Last Year	2.5	3.2	3.6	3.4	2.9	2.9	3.2	3.5	2.8	2.5	3.1	3.6	4.7
US Retail Sales (Bil. 84\$)	329.9	332.7	332.4	336.6	336.8	339.0	340.1	346.1	344.9	351.3	357.3	350.7	351.8
% Chg Previous Month SAAR	22.9	10.7	-1.1	16.2	0.7	8.1	3.9	23.4	-3.9	24.6	22.4	-19.9	3.6
% Chg Same Month Last Year	7.7	8.7	7.3	8.9	8.0	8.0	6.0	9.1	6.3	9.8	10.3	8.2	6.6
Manufacturing & Trade Sales (000s)	921.1	922.9	924.6	936.9	940.2	933.1	932.9	937.8	944.3	948.4	949.7	948.5	*951.8
% Chg Previous Month SAAR	0.6	2.4	2.2	17.1	4.3	-8.8	-0.3	6.5	8.6	5.3	1.6	-1.4	4.2
% Chg Same Month Last Year	5.5	5.2	4.8	5.6	6.1	4.9	2.1	3.5	3.8	4.2	3.7	3.0	3.3
US Consumer Expectations (1966=100)	88.0	83.8	85.2	90.9	85.7	84.4	82.8	77.0	75.3	85.0	85.5	76.9	63.3
% Chg Previous Month AR	-2.7	-44.4	22.0	117.5	-50.7	-16.8	-20.5	-58.2	-23.5	328.0	7.3	-72.0	-90.3
% Chg Same Month Last Year	8.9	1.0	-3.3	1.2	-14.4	-4.6	-6.8	-11.8	-7.7	-4.0	-6.3	-12.8	-28.1
Ave. Prime Interest Rate (% NSA)	4.58	4.75	4.93	5.14	5.25	5.49	5.58	5.75	5.98	6.01	6.25	6.44	6.59

* ARIMA estimation